

TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE



FISCAL NOTE

HB 2491 - SB 2627

February 20, 2020

SUMMARY OF BILL: Decreases, from \$400 to \$200, the occupational privilege tax for persons engaging in certain professions in Tennessee.

ESTIMATED FISCAL IMPACT:

Decrease State Revenue – Net Impact – \$37,991,800/FY19-20 and Subsequent Years

Decrease State Expenditures – \$389,800/FY19-20 and Subsequent Years

Increase Local Revenue – \$130,500/FY19-20 and Subsequent Years

Assumptions:

- Pursuant to Tenn. Code Ann. § 67-4-1703(a), the occupational privilege tax is a \$400 annual tax on persons engaging in certain occupations in Tennessee, due and payable on June 1 of each year. The proposed legislation will decrease the tax beginning in the tax year ending on or after May 31, 2021, for which the payment is due on June 1, 2020. Therefore, the first year impacted will be FY19-20.
- Pursuant to Tenn. Code Ann. § 67-4-1701, privilege tax collections are required to be deposited to the General Fund.
- Based on information provided by the Department of Revenue, occupational privilege tax collections under current law are estimated to be \$76,623,200 in FY19-20 and subsequent years.
- Decreasing the tax by half (from \$400 to \$200) will result in a recurring decrease in state revenue of \$38,311,600 (\$76,623,200 x 50%).
- Pursuant to Public Chapter 478 of the Public Acts of 2019, the following professions are exempt, beginning in FY19-20, from the requirement to pay the occupational privilege tax: accountants, architects, athlete agents, audiologists, chiropractors, dentists, engineers, landscape architects, optometrists, pharmacists, podiatrists, psychologists, real estate brokers, speech pathologists, and veterinarians.
- Prior to passage of Public Chapter 478, there were approximately 2,436 state employees for which the State of Tennessee was paying the professional privilege tax.
- The exact number of current state employees impacted by the passage of Public Chapter 478 of 2019 that would no longer be subject to the occupational privilege tax was estimated to be at least 20 percent, or 487 (2,436 x 20%).

- Therefore, it is reasonably assumed the proposed legislation will result in the state paying half of the current occupational privilege tax for 1,949 state employees $[(2,436 \text{ state employees} \times (100\% - 20\%))]$. The recurring decrease in state expenditures is estimated to be \$389,800 $(1,949 \text{ state employees} \times \$200)$.
- Based on the Tennessee Advisory Commission on Intergovernmental Relations' 2016 study (The Professional Privilege Tax in Tennessee: Taxing Professionals Fairly), it is estimated that approximately 25 percent of occupational privilege taxpayers reside in the state.
- Fifty percent of tax savings realized by in-state residents, net of the amounts paid by the state on behalf of such residents, or \$4,740,213 $[(\$38,311,600 - \$389,900) \times 25\% \times 50\%]$, will be spent in the economy on sales-taxable goods and services.
- The current state sales tax rate is 7.0 percent; the average local option sales tax rate is estimated to be 2.5 percent; the effective rate of apportionment to local government pursuant to the state-shared allocation is estimated to be 3.617 percent.
- The recurring increase in state revenue as a result of the proposed legislation will be \$319,813 $[(\$4,740,213 \times 7\%) - (\$4,740,213 \times 7\% \times 3.617\%)]$.
- The recurring increase in local revenue as a result of the proposed legislation will be \$130,507 $[(\$4,740,213 \times 2.5\%) + (\$4,740,213 \times 7\% \times 3.617\%)]$.
- The net recurring decrease in state revenue will be \$37,991,787 $(\$38,311,600 - \$319,813)$.

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.



Krista Lee Carsner, Executive Director

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